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SIPDIS

NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
LONDON FOR CGURNEY
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E.O. 12958: N/A
TAGS: EAGR EFIN ECON ZI
SUBJECT: GOZ TO STRONG-ARM PENSION FUNDS FOR FINANCIAL SUPPORT

¶1. Summary. The GOZ is reportedly planning to issue Zim $30 billion in bonds, and require pension plans to buy them, in order to finance the inadequately funded land reform program. Between the shrinking membership paying in to pension funds, the decreasing interest rates, and the escalating inflation rate, the result is that the GOZ is confiscating private capital in order to prop up its bankrupt resettlement program. Estimates of the full amount needed to finance land reform vary from at least Zim $160 billion to more than Zim $300 billion (between US $232 million and $435 million at the parallel rate). To date, the GOZ has guaranteed $8.5 billion for the purchase of inputs, with banks supposedly pledging to match that amount. Although the government-controlled newspaper cites analysts as saying that pension funds have sufficient cash balances to purchase the funds, private economists state such projections are wildly inaccurate. In any event, the employees of Zimbabwe, both past and present, are now being forced to subsidize the GOZ's self-aggrandizing venture with their life's savings. End summary.

¶2. Pension funds are one of the most formalized savings institutions in Zimbabwe. By law, every employee in Zimbabwe must belong to at least one pension fund -- employees are required to direct a portion of their earnings toward their eventual retirement income. For many years, the government -- initially under UDI and subsequently under the GOZ -- has mandated that private pension funds invest in government by purchasing various treasury bills, and maintaining a specified proportion of government assets as a "prescribed asset ratio" in relation to their overall portfolios. Under the UDI government, the prescribed asset ratio was 60% of investments; currently the prescribed asset ratio has decreased to 45% of investments.

¶3. Historically, the prescribed asset ratio was not a liability to the big pension fund companies since the bills paid interest at or about the rate of inflation, returning approximately 60% interest in January 2001. However, during the past ten years various politicians have looked with envy at the "commanding heights of the economy," symbolized by the impressive buildings bearing the names of private pension funds such as Old Mutual and Southampton, and schemed to gain control of the substantial monies deposited with the private institutions. Subsequently, around January 2001, the GOZ began to exercise its ability to manipulate its profit margin by reducing the rate of return on new bond issues. With the backing of the prescribed asset ratio guaranteeing a captive market, the Reserve Bank of Zimbabwe (RBZ) decreased the rate of return on treasury bills to 11%, slowly inching the level back up to its current rate of 25%. In conjunction with the present rate of inflation -- 135% for the month of August -- this is resulting in a negative real interest rate of 110%. Since the economic meltdown has built over the last two years, the pension funds have steadily been eroding their capital base in order to continue purchasing the mandatory treasury bills and thus financing various GOZ projects.

¶4. Comment. Although some analysts opine that the pension funds have the cash reserves needed to fund this program, other economists state that pension funds are highly unlikely to have enough liquid assets to underwrite such an undertaking. Rather, one highly respected local economist speculates that the only way pension funds will be able to buy into the new bond issue will be by selling off capital assets. In the past, the RBZ has bought up to Zim $21 billion of its own treasury bills using its own cash reserves -- in short, lending money to to the GOZ. Even if the RBZ funds this initiative directly, either by using its own reserves or printing new money, this will result in further inflationary pressure. This economist forecasts that inflation is likely to rise to the 200% level by the end of 2002, and could potentially reach 1000% by year end 2003 unless drastic macroeconomic corrective measures are undertaken. This paints a dismal picture whereby pensioners receive funds -- if they receive them at all -- equal to a fraction of the money deposited, and a fraction of the money required for survival. As one retiree stated, although he receives Zim $20,000 monthly from his pension fund, that amount "won't even buy dog food" in today's economy. If it

was not for the income from his small consulting business, he would be among the growing population of pensioners wondering where his next meal was coming from. End comment.

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